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Business and development

Report of the Secretary-General*

Summary

The present report is submitted in response to General Assembly resolution 56/185 of 21 December 2001, in which the Secretary-General was requested to submit at the fifty-seventh session a follow-up report on the continuing implementation of its resolution 54/204 of 22 December 1999. The report presents a brief overview of current thinking on the role of business in development; a summary of the views of the international community on the subject, as reflected in the outcomes of recent United Nations conferences; a synopsis of actions taken by Governments regarding the role of business in development; the response of business to these developments. Finally, it describes some specific United Nations activities pertaining to business and development.

* The report has been submitted late due to the need to coordinate inputs with the United Nations Secretariat.

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I. Introduction

1. The General Assembly, in paragraphs 5 and 6 of its resolution 54/204 of 22 December 1999 on business and development, identified a number of actions that can be taken by the international community, Governments, the private sector, the United Nations system and others to strengthen the contribution of business and industry, including small and medium-sized enterprises, to a country's economic and social development, environmental protection, economic growth, job creation, trade expansion and technology development and transfer. In particular, it called upon the private sector, including corporations engaged in international business activities, to pursue orderly and fair business practices, while adhering to and promoting the principles of honesty, transparency and accountability. In response to a request contained in the resolution, the Secretary-General submitted a report on its implementation to the Assembly at its fifty-sixth session (A/56/442). Welcoming that report, the General Assembly requested the Secretary-General to submit a follow-up report on the continuing implementation of resolution 54/204. The present report is submitted in response to that request and provides an overview of key pertinent developments during the year since the previous report.

II. The evolving business and development framework

2. There is now universal recognition that individual Governments have overall primary responsibility for managing their countries' efforts to achieve their national development goals. They therefore have to ensure that, for its part, the business sector, both domestic and international, contributes as far as possible to the attainment of those goals. As reflected in the concepts supporting resolution 54/204, the past decade has seen an increasing awareness that the contribution of the private sector to development could be increased in most countries, particularly in developing countries and most notably in countries with economies in transition, both by undertaking more efficiently and effectively some activities previously performed by the State and by increasing the extent of the private sector contribution in other areas. This realization has resulted in a general trend towards an expanded role for the business sector in most countries.

3. While the role of the business sector is tending to expand, it has become increasingly apparent that there is no universally applicable approach to determining the respective roles and responsibilities of the Government and business in the quest for accelerated development. There may exist some broad universal principles, but their application is likely to take different forms in different countries and sectors and at different stages of development within a country. The increased reliance on the private sector changes, rather than inevitably reduces, the role of the Government, with the result that this role has to be kept continuously under review.

4. One of the strengths of the private sector is its ability, within its overall profit-oriented structure, to adjust promptly and efficiently to changing conditions. Businesses are also adept at taking measures to mitigate identifiable risks, and financial innovation and technical progress are providing an increasing array of tools that enable them to do so. Such flexibility is particularly beneficial in an era when, partially as a result of globalization, the economic environment can change very rapidly. However, the full benefits of this flexibility are unlikely to be realized — or may be very costly to realize — in an environment of underlying uncertainty.

Under such circumstances, businesses are more likely to focus on maximizing their own short-term economic gains, seeing less benefit to be derived from contributing to the country's longer-term economic, social and environmental development objectives. Armed conflict is an extreme case of such uncertainty, but other instabilities can similarly distract businesses from the longer-term focus that is necessary to achieve most development objectives. Regardless of the specific development goals and policies pursued, one of the key functions of individual Governments vis-à-vis the business sector should therefore be to provide clarity and stability about the expected role of business within the country's development strategy over the medium term and to provide a regulatory framework so as to promote national economic, social and environmental objectives. In this context, the need for appropriate national strategies, policies and regulatory frameworks cannot be overemphasized. Sound macroeconomic policies that allow avoiding inflationary distortions and abrupt economic fluctuations are called for. At the same time, there is demand for promotion of economic systems that are based on the principles of justice, equity, democracy, participation, transparency, accountability and inclusion.[1]

5. In most countries, the initial focus of the recent worldwide effort to increase the contribution of the business sector to development took the form of the privatization of State-owned enterprises. Particularly within some individual countries, there is considerable scope for further privatization but this process has its inherent limits. Increasingly, therefore, Governments are turning their attention to ensuring that the contribution of the business sector to sustainable economic and social development is maximized and that any negative consequences are minimized. This primarily involves developing a body of laws, regulations and similar arrangements and building institutional structures of various kinds. Both are not only inherently long-term processes but are also a continuous and unending responsibility, since both regulations and institutions have to adjust to changing circumstances. Moreover, it is not only the existence of laws, regulations and institutions that is important but, above all, their effectiveness and enforcement. Particularly in the case of laws and regulations, this means that, in addition to their adoption, ensuring adherence to them is critical. During 2001 and 2002, this has been vividly demonstrated by the fact that, even in the world's largest economy, there have been some striking instances in which the business sector has failed to conform with existing regulatory standards and other instances where existing regulations have proven to be inadequate. Both situations have had consequences extending far beyond the individual companies concerned. Particularly for developing countries and countries with economies in transition, building government capacity to ensure that the contribution of the business sector to sustainable economic and social development is maximized should now be a priority.

6. The recent quest to increase the involvement of the business sector in a country's development effort has demonstrated that inadequate physical infrastructure and human capabilities are often major impediments. Business itself can contribute to meeting some needs in these areas (for example, by building power facilities or providing technical education). Nevertheless, Governments are likely to continue to have to meet a large proportion of a country's requirements for roads, railways, information and telecommunication technology and other physical infrastructure, as well as basic education and health services. In addition to a sound policy and regulatory environment, the business sector requires adequate physical infrastructure and human resources in order to be effective, or even to become

engaged. As has been stressed again in documents adopted at the World Summit on Sustainable Development, held in Johannesburg, social infrastructure, social services and social protection, including education, health, nutrition, shelter and social security programmes, as well as active labour market policies, including worker training, continue to be viewed as part of an important enabling role of Governments.[2]

7. While there is an understanding that Governments are responsible for a transparent and stable regulatory environment that would assure corporate accountability, there is a clearly expressed demand for good corporate citizenship; for private sector corporations to voluntarily enforce corporate accountability, to engage in the development process as reliable and consistent partners. It is felt that both large and small companies in the private sector have the duty to contribute to the evolution of equitable and sustainable communities and societies. Business should "take into account not only the economic and financial, but also the developmental, social, gender and environmental implications of their undertakings".[3]

8. The roles of business and Governments in development are now usually seen as being complementary rather than conflicting, one result of which is that attention is increasingly being given to the possibilities for various forms of partnership between the public and private sectors. The concept of public-private partnerships is now widely advocated and is increasingly being applied in practice. Such partnerships are evident in a wide range of activities, but are seen to offer particular potential in addressing some of the physical and human infrastructure requirements that need to be met if the full potential of the business sector is to be realized. They have been widely used in, for example, the power, telecommunications and water sectors but have also been applied in the effort to develop human capital, such as education and agricultural research.

9. In addition, national government and business efforts need to be supported by an enabling international economic environment.[4] Good global economic governance needs to broaden the base for decision-making on issues of development concern and fill organizational gaps in its structure. This includes transparency in the financial, monetary and trading systems, as well as their coherence, governance and consistency. Improved market access, debt relief, increased development assistance flows, increased, non-volatile private capital flows, especially in the form of foreign direct investment, and access to and transfer of knowledge and technology (especially information and communication technology) are among measures with positive impact on the enabling international economic environment that benefits both business and development. International trade continues to constitute an engine of development. A universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can substantially stimulate development worldwide, benefiting countries at all stages of development. In this context, also important to resolve are "issues of particular concern to developing countries and countries with economies in transition."[5]

III. Views of the international community

10. The evolving thinking about the role of business in development and the implications for the responsibilities of Governments has been reflected in the gradual development of a corresponding intergovernmental consensus. Prior to the

adoption of General Assembly resolution 54/204, the global conferences of the 1990s considered ways in which the business sector could contribute to the realization of their respective sectoral objectives. The broad objective for the business dimension of these conferences was to find and strengthen shared values and principles between development objectives, as defined by the international community in the United Nations, and business. Subsequently, the United Nations Millennium Declaration captured the general principle behind these specific undertakings when Governments resolved to develop strong partnerships with the private sector in pursuit of development and poverty eradication (see General Assembly resolution 55/2 of 18 September 2000, para. 20). Over the past year, the international community has further refined its consensus on the role of the private sector in development and on the conditions and measures necessary to ensure that business is able to make the greatest possible contribution to development.

11. During this period, two key events on the international agenda were the International Conference on Financing for Development and the World Summit on Sustainable Development. To a far greater extent than on prior occasions, the contribution that business could make to development was seen as an integral part of these conference processes. The business sector not only played an important role in both events, but also made a number of commitments to contribute directly to the implementation of their agreed outcomes.

12. The Monterrey Consensus of the International Conference on Financing for Development embodies the most recent and comprehensive intergovernmental articulation of the role of Governments and national strategies, policies and regulatory frameworks in providing an enabling environment for development, including for the business sector. The Consensus recognizes that the appropriate role of government in market-oriented economies will vary from country to country[6] and calls for an enabling domestic environment that is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance.[7]

13. The Plan of Implementation of the World Summit on Sustainable Development is more specific in its proposals for business involvement in development. Dialogue between enterprises and the communities in which they operate is called for. Industry is encouraged to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues. The Plan also advocates the promotion of corporate responsibility and accountability based on the Rio Principles, including through the full development and effective implementation of intergovernmental agreements and measures, international initiatives and public-private partnerships, appropriate national regulations, and support to the continuous improvement of corporate practices in all countries. Banks and other financial institutions are invited to foster innovative development financing approaches, including incorporation of sustainable development considerations into their decision-making. It advocates interaction, collaboration, partnerships and networks among universities, research institutions, government agencies and the private sector for technology transfer, development and diffusion in order to enhance industrial efficiency, agricultural productivity, environmental management and competitiveness. Work-based partnerships and programmes for training and education are also called for. Finally, as a specific initiative, the

pharmaceutical industry is invited to make essential drugs more widely available and affordable by all who need them in developing countries.

IV. Actions taken by Governments

14. Governments have continued to take actions at the national level to operationalize the evolving thinking and the international consensus on the role of business in development. A key development in this respect in the past year was the adoption of the New Partnership for Africa's Development (NEPAD) (see A/57/304, annex). One of the important characteristics of NEPAD is that, in its own words, it "is envisaged as a long-term vision of an African-owned and African-led development programme".

15. It is particularly noteworthy that three specific objectives established by African leaders in NEPAD are to ensure a sound and conducive environment for private sector activities, to promote foreign direct investment and trade and to develop micro, small and medium enterprises (ibid., para. 166). At the same time, NEPAD recognizes that many African countries lack the necessary policy and regulatory frameworks for private sector-led growth. They also lack the capacity to implement programmes even when funding is available (ibid., para. 86). To achieve its objectives for private sector development, NEPAD calls upon African countries themselves to undertake measures to enhance the entrepreneurial, managerial and technical capacities of the private sector, strengthen chambers of commerce and professional associations, organize dialogue between the Government and the private sector to develop a shared vision of development strategy and to remove constraints to private sector development, encourage the growth of small and medium-scale industries, improve access to capital by strengthening microfinancing schemes (ibid., para. 167) and to launch an Economic and Corporate Governance Initiative (ibid., paras. 86-92).

16. Beyond this regional commitment regarding the development of the private sector, individual Governments around the world have continued to adopt legislation, policies and measures intended to enhance the contribution of business to development. Comprehensive data on the number and nature of such new actions are not available, but the general trend is clear. Whereas, in the past, there were frequently actions to constrain the power of business and sometimes to transfer responsibilities to the State, such actions are now rare. To the contrary, most current efforts are focused on creating a transparent, stable and predictable pro-business investment climate and on establishing an investment policy that treats domestic, as well as foreign, investors fairly. This involves ensuring the rule of law (especially with respect to contracts), respect for property rights and anti-corruption measures. It also calls for a strong domestic financial sector that provides an effective, efficient, transparent and accountable system for mobilizing resources, including for small and medium-sized enterprises. An essential part of this picture is a system for mobilizing public resources and their efficient use by Governments.

17. Governments in developing countries and countries with economies in transition are also addressing the constraints to business created by inadequate infrastructure. In this area, however, they often face resource constraints. It is therefore encouraging that this difficulty is also recognized by many in the donor community and that resources are being provided to this end. Nevertheless, there

appears to be a danger of a lack of funding for physical infrastructure in some countries. This situation arises in part because, with the aim of achieving the Millennium development goals, donors (including multilateral institutions that used to be major sources of funding for such projects) prefer to use their resources to tackle social needs. This tendency is reinforced in some cases by the view that many infrastructure needs can and should now be met by the private sector. However, in many developing countries and countries with economies in transition, particularly the poorest, business is unlikely to be willing or able to make the long-term commitment usually required for such investments. At the same time, tight budget constraints and poorly developed domestic capital markets may mean that national Governments are also unable to finance large infrastructure projects. Lack of supportive physical infrastructure may therefore remain an impediment to private sector development in some countries for some time to come.

V. Responses by the business sector

18. One of the overriding influences on both business and development over recent years has been globalization. Broadly speaking, the economic globalization of the past two decades has been the result of the interaction of technical change, actions by Governments and responses by individual economic agents, among which businesses have been the most important.

19. Reflecting their central role in globalization, businesses are increasingly recognizing the contribution they need to make to ensure that globalization becomes a positive force for all the world's people. There is now widespread recognition within the business community that achieving this objective is not only a global priority, but is also in the long-term interest of the business sector itself.[8] This broad understanding underpins the growing number of voluntary initiatives by the business community, ranging from statements of principle, codes of conduct and certification and public reporting on environmental and social issues to specific projects and activities. A reflection of this changing attitude can be found in paragraph 4 of the Declaration on the Agreement on Trade-Related Intellectual Property Rights and public health adopted by the Fourth Ministerial Conference of the World Trade Organization, held in Doha from 9 to 14 November 2001. It affirmed that the agreement should be implemented in a manner supportive of the World Trade Organization members' right to protect public health and, in particular, to promote access to medicines for all.

20. Reflecting this commitment and willingness to contribute to development, the business sector participated very widely and actively in both the International Conference on Financing for Development and the World Summit on Sustainable Development. By facilitating and encouraging an unprecedented degree of business participation in these intergovernmental dialogues, including the extensive preparatory processes, Governments underscored their recognition of the central role of business in development. By responding positively to the opportunity to participate, the business community demonstrated both its recognition of its role in, and its willingness to contribute to, development. In both instances, albeit in somewhat different forms, the business community contributed in a positive and cooperative, rather than in a defensive and purely self-interested, fashion. Since these two conferences, the business sector has continued its involvement by participating in the implementation of the outcome of the two events.

21. The relationship between Government and business in pursuing national development is increasingly seen as a partnership, rather than as an adversarial relationship. This general notion is being translated into practical application in the form of an increasing number of concrete and specific partnerships to achieve certain goals or undertake specific activities. Although an ongoing and expanding process, the development of public-private partnerships for development accelerated in the preparation for and during the World Summit on Sustainable Development and was an integral part of the Summit.

VI. Some specific United Nations activities pertaining to business and development

22. In resolution 54/204, the General Assembly calls upon the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, United Nations funds and programmes and other relevant bodies of the United Nations system to provide a forum for discussion of all matters related to business and development; to strengthen activities aimed at promotion of entrepreneurship, especially with respect to small and medium-sized enterprises; to assist the Member States in the implementation of relevant programmes and in building their capacity to implement them. The Assembly invites them also to promote meaningful contributions of business, in both the public and private sectors, in support of economic growth and sustainable development. The Millennium Declaration, the Monterrey Consensus and the Johannesburg Declaration stress the need for strengthening the United Nations leadership role in promoting international cooperation for development. Its initiative to promote global partnership is welcomed.[9] It is also being stressed that opportunities should be given to the private sector to contribute to the realization of the United Nations goals and programmes.[10]

23. While it is not possible or needed in the context of the present report to provide a full account of the United Nations actions pertaining to business and development, examples of specific activities follow:

(a) The Commission on Investment, Technology and Related Financial Issues, the Commission on Science and Technology for Development and the Commission on Enterprise and Business Facilitation and Development (all serviced by the secretariat of UNCTAD) continue to provide a regular forum for discussing, inter alia, aspects of the business and development framework;

(b) Many parts of the United Nations system are actively involved in technical cooperation activities aimed at raising the capacity of the developing countries and countries with economies in transition. The Advisory Service on Investment and Training (UNCTAD) is helping to build the capacity to formulate investment policies, to put in place an enabling legal and regulatory framework and to establish and maintain an effective institutional support structure with the ability to promote and facilitate foreign investment. A capacity-building programme (UNCTAD and the World Trade Organization) aims at assisting developing countries in their negotiations of international investment agreements at the bilateral, regional and multilateral levels. A similar programme (the Department of Economic and Social Affairs of the Secretariat) helps interested developing countries negotiate double taxation treaties. The International Investment Initiative for Least Developed Countries (UNCTAD, in cooperation with the Global Compact)

aims at enhancing the productive capacity of the businesses in these countries. The UNCTAD integrated capacity-building assistance programme on enterprise development (EMPRETEC) provides training and business services to small and medium-sized enterprises. UNIDO focuses its many advisory services (policy development, local business systems, rural and women entrepreneurship development) on small and medium-sized enterprises. An initiative by the World Trade Organization and the World Intellectual Property Organization provides technical cooperation to help least developed countries to maximize the benefits of intellectual property protection (preparing legislation, training, institution-building, modernizing intellectual property systems and enforcement);

(c) Finally, there is a visible growth of the number and quality of initiatives undertaken by business alone or in cooperation with the United Nations in the context of the global partnership initiative. A comprehensive account was presented in the report of the Secretary-General (A/56/323), in a book based on that report, entitled "Building Partnerships: Cooperation Between the United Nations System and the Private Sector", issued in June 2002, and in the report entitled "The Global Compact: report on progress and activities", issued by the Global Compact Office in July 2002. It is noteworthy that many of these initiatives do not shy away from difficult issues related to labour and human rights protection. In addition, as mentioned above, the World Summit on Sustainable Development brought an additional wealth of initiatives. The World Summit on Sustainable Development Partnerships for Sustainable Development promise to complement the intergovernmentally agreed Plan of Implementation of the World Summit on Social Development and to help translate the political commitments into action, also by the business community.

VII. Recommendations

24. **It is recommended that the General Assembly continue to consider issues related to business and development with the goal of deepening understanding of the evolving business and development framework.**

25. **It is recommended that further consideration of this subject by the General Assembly focus on substantive issues related to the business and development framework. Member States may wish to indicate which aspects of the business and development framework they wish to cover in future.**

Notes

[1] See *Report of the International Conference on Financing for Development*, Monterrey, Mexico, 18-22 March 2002 (United Nations publication, Sales No. E.02.11.A.7), chap. I, resolution 1, annex (Monterrey Consensus), paras. 10 and 14; Road map towards the implementation of the United Nations Millennium Declaration (A/56/326), para. 134.

[2] See Johannesburg Declaration on Sustainable Development (A/CONF.199/20), chap. I, resolution 1, annex, para. 16.

[3] Johannesburg Declaration, paras. 27 and 29; and Monterrey Consensus, para. 23.

[4] Monterrey Consensus, paras. 15, 16, 25, 26, 32, 33, 42, 47, 49, 52, 53, 57, 61, 62 and 63.

[5] Ibid., para. 28.

[6] Ibid., para. 12.

[7] Ibid., para. 10.

[8] In the words of Carly Fiorina, member of the Secretary-General's Task Force on Information and Communications Technologies "... now more than ever, we have a responsibility to redefine the role of the corporation on a world stage — and to leverage our ability to impact individuals, companies, communities, nations for the better. We must remake our businesses to be far more active corporate citizens — creators not only of shareholder value, but also of social value, in ways that are systemic and sustainable" (26 September 2001).

[9] Monterrey Consensus, para. 23.

[10] Millennium Declaration, para. 30; Road map, paras. 301-303.